

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 CAB-02 CIAE-00 COME-00 DODE-00

DOTE-00 INR-07 NSAE-00 CIEP-01 FAA-00 TRSE-00 L-03

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FM AMEMBASSY BELGRADE

TO SECSTATE WASHDC 8945

INFO AMCONSUL ZAGREB

C O N F I D E N T I A L BELGRADE 8000

EO 11652: GDS

TAGS: EAIR YO

SUBJ: CIVAIR: JAT DEFERRING INTRODUCTION OF WIDE-BODY AIRCRAFT

REF: BELGRADE 5881

1. INFORMATION IN PARA 2 GIVEN US ON CONFIDENTIAL BASIS
BY REP OF MCDONNELL-DOUGLAS AND AS SUCH SHOULD BE PROTECTED.

2. MCDONNELL-DOUGLAS HAS BEEN ACTIVELY NEGOTIATING WITH
JAT SINCE LATE MAY OVER LEASE AND SUBSEQUENT PURCHASE BY
JAT OF WIDE-BODIES. COMPANY HAS NOW RECEIVED LETTER FROM
JAT GENERAL DIRECTOR, GEN. RADOSAVLJEVIC, THANKING MCDONNELL-
DOUGLAS FOR ITS EFFORTS BUT STATING THAT JAT HAS ABANDONED PLANS
TO LEASE OR PURCHASE WIDE-BODIES FOR INTRODUCTION INTO
SERVICE DURING 1977. LETTER INDICATES THAT TWO MAJOR REASONS
FOR DECISION ARE: FAILURE OF JAT TO SECURE ELIMINATION OR
SIGNIFICANT REDUCTION OF 21 PERCENT CUSTOMS DUTY IMPOSED BY GOY
ON IMPORTED AIRCRAFT AND "UNCERTAINTY" OVER JAT'S COMMERCIAL
AND TRAFFIC RIGHTS TO THE UNITED STATES AND CANADA. LETTER
ASSURED DOUGLAS THAT DECISION DID NOT MEAN ANY LOSS OF
INTEREST ON PART OF JAT IN ACQUISITION OF WIDE-BODIES IN
1978. DOUGLAS, WHICH HAD OFFERED LEASE ARRANGEMENT WITH
MAJOR AIRLINE TO COVER JAT'S NEEDS IN 1977, IS DISAPPOINTED
AT THIS DECISION, BUT WILL CONTINUE ITS SALES EFFORTS WITH
JAT. DELAY IN PURCHASING WILL PROVE EXPENSIVE FOR JAT.
COST ESCALATION WILL ADD MILLIONS OF DOLLARS TO ULTIMATE PRICE
OF WIDE-BODIES, WHICH CONTINUE TO BE NECESSARY FOR JAT IF
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IT IS TO COMPETE ON NORTH ATLANTIC AND AUSTRALIAN RUNS.

3. COMMENT: ALL THREE US WIDE-BODY MANUFACTURERS HAVE BEEN ACTIVE IN YUGOSLAVIA IN RECENT MONTHS, WITH DOUGLAS REPORTEDLY AHEAD IN RACE BECAUSE OF COMMERCIAL ATTRACTIVENESS OF PACKAGE IT WAS OFFERING. EMBASSY HAD HEARD SOME MONTHS AGO THAT SINA QUA NON OF PURCHASE DECISION WAS GRANTING BY GOY OF CUSTOMS CONCESSION. UNDER EXISTING YUGOSLAV LAW, EITHER PURCHASED OR LEASED WIDE-BODY WOULD BE CUSTOMED AT 21 PERCENT OF ITS TOTAL VALUE ON INITIAL ENTRY INTO YUGOSLAVIA. FINDING THAT AMOUNT OF CASE - \$13-15 MILLION DOLLARS - WAS SIMPLY OUT OF THE QUESTION FOR JAT. WE SUPPOSED, HOWEVER, THAT JAT HAS INCLUDED REFERENCE TO ACCESS TO NORTH AMERICAN MARKET IN ORDER TO GAIN LEVERAGE IN FORTHCOMING NEGOTIATIONS OF U.S./YUGOSLAV BILATERAL AGREEMENT.

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